

**FRANKLIN COUNTY FISCAL COURT
FRANKLIN COUNTY, KENTUCKY**

AUDIT REPORT

Fiscal Year Ended June 30, 2005

EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
FRANKLIN COUNTY FISCAL COURT**

June 30, 2005

The Charles T. Mitchell Company completed the audit of the Franklin County Fiscal Court for fiscal year ended June 30, 2005.

We have issued unqualified opinions, based on our audit, on the governmental activities, business-type activity, and each major fund of Franklin County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$11,496,646 as of June 30, 2005. The fiscal court had unrestricted net assets of \$(132,159) in its governmental activities as of June 30, 2005 with total net assets of \$11,361,160. In its business-type activities, total net cash and cash equivalents were \$60,151 with total net assets of \$135,486. The fiscal court had total debt principal as of June 30, 2005 of \$6,998,926.

Report Comments:

Deposits:

As of June 30, 2005, \$19,005 of the fiscal court's deposits were uninsured and unsecured due to the financial institution not pledging sufficient collateral.

Schedule of Findings and Questioned Costs

Compliance Deficiency

1. County received some of its funds prior to expenditure when they should have been received on a reimbursement basis
2. Some of the Homeland Security and Hazmat equipment purchases may not be covered by insurance and are not included on the County's inventory for control purposes.

Reportable Conditions

1. Due to a lack of a consistent system of requesting reimbursement for hazmat expenditures, the County is getting reimbursed for expenses that have not been paid prior to receipt. In addition, reimbursements are being received for expenditures that have not been made.

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To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Robert Roach, Franklin County Judge/Executive
Members of the Franklin County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activity, and each major fund of Franklin County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Franklin County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Franklin County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of Franklin County, Kentucky as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements of Franklin County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated December 16, 2005 on our consideration of Franklin County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the schedule of findings and questioned costs, include herein, which discusses the following report comment(s):

- The County has been reimbursed for some of its expenditures prior to payment in its CFDA #16.007, State Domestic Preparedness Equipment Support Program grant.
- All Homeland Security and Hazmat grant equipment purchases are not being properly insured and are not included on County equipment inventory for control purposes in accordance with requirements for CFDA #16.007 and #97.004.
- The County does not have a consistent system of requesting reimbursements for approved hazmat expenditures in its CFDA #16.007, State Domestic Preparedness Equipment Support Program grant.

Charles T. Mitchell Co.

December 16, 2005

FRANKLIN COUNTY OFFICIALS

FOR THE YEAR ENDED JUNE 30, 2005

Fiscal Court Members:

Robert Roach	County Judge/Executive
Jill E. Robinson	Magistrate
Philip W. Kring	Magistrate
Howard Dawson	Magistrate
Ira W. Fanin	Magistrate
Huston D. Wells	Magistrate
Lambert Moore	Magistrate

Other Elected Officials:

Rick Sparks	County Attorney
Ted Hammermeister	Jailer
Guy Zeigler	County Clerk
Janice W. Marshall	Circuit Court Clerk
Ted Collins	Sheriff
Patsy Conway	Property Valuation
Mike Harrod	Coroner

Appointed Personnel:

Susan Laurenson	County Treasurer
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FRANKLIN COUNTY FISCAL COURT
Management's Discussion and Analysis
June 30, 2005

The financial management of Franklin County, Kentucky offers readers of Franklin County's financial statements this narrative overview and analysis of the financial activities of Franklin County for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in the notes to the financial statements.

Financial Highlights

Franklin County had net assets of \$11,496,646 as of June 30, 2005. The fiscal court had unrestricted net assets of \$(132,159) in its governmental activities as of June 30, 2005. In its business-type activities, cash and cash equivalents were \$60,151 with total assets of \$135,486.

The government's total net assets increased by \$2,534,892 from the prior year. This increase is primarily due to higher tax collections, sale of buildings, and charges for services at the jail.

At the close of the current fiscal year, Franklin County's governmental funds balance sheet reported a fund balance of \$4,835,862. Of this amount, \$4,094,617 is available for spending at the government's discretion (unreserved fund balance).

Franklin County's total bond and lease indebtedness at the close of fiscal year June 30, 2005 was \$6,998,926 of which \$6,446,365 is noncurrent (due after 1 year) and \$552,561 is to be paid within 1 year. The KLCFCA revenue bonds were refinanced. The principal amount of the refinanced debt was \$1,018,821, retiring \$1,136,404 of old debt. This saved the County \$117,583 of interest. Total debt reduction was \$2,163,509, resulting in a net decrease of 23.6%. Capital lease payments included paying off the Webster bonds when the building was sold.

Overview of the Financial Statements

This management discussion and analysis is intended to serve as an introduction to Franklin County's basic financial statements. Franklin County's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GASB 34 requires management to include certain comparison schedules when they are available. These schedules include prior and current comparisons of general revenues by major source, and program expenses by function.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of Franklin County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Franklin County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Franklin County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and related assets and liabilities.

Under the County's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). Franklin County's governmental activities include general governmental, protection to persons and property, roads, recreation, social services, general health and sanitation, debt service, and capital projects. The County has one business type activity – the operation of a jail canteen. Net assets activity from this proprietary fund of \$135,486 represents about 1% of the total net assets.

It is significant to note that Franklin County classifies insurance premium tax revenue as a charge for protection to persons and property. The Fiscal Court implemented this fee to help pay the cost of fire protection. Collections of \$942,528 account for 27% of

total governmental activity service charges. Landfill host fees of \$112,579 and sewer capacity fees of \$33,973 represent the only revenue sources for general health and sanitation.

There are no component units.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Franklin County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Franklin County can be divided into two broad categories: *governmental funds and proprietary funds*.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental* activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Franklin County maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, and Community Development Block Grant Fund, all of which are considered major funds by the County.

Franklin County adopts an annual appropriated budget for its major governmental funds. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with their budgets.

Proprietary Funds. Proprietary funds provide the same type of information as the business-type activities column on the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Jail Canteen Fund.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis.

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

	Net Assets					
	Governmental Activities		Business-type Activities		Total	
	June 30 2004	June 30 2005	June 30 2004	June 30 2005	June 30 2004	June 30 2005
Assets						
Current Assets	\$ 5,038,447	\$ 4,854,612	\$ 127,948	\$ 129,792	\$ 5,166,395	\$ 4,984,404
Capital Assets	13,293,837	13,942,244		5,694	13,293,837	13,947,938
Total Assets	18,332,284	18,796,856	127,948	135,486	18,460,232	18,932,342
Liabilities						
Current and Other Liabilities	2,316,467	989,331			2,316,467	989,331
Long-Term Liabilities	7,182,011	6,446,365			7,182,011	6,446,365
Total Liabilities	9,498,478	7,435,696			9,498,478	7,435,696
Net Assets						
Invested in Capital Assets, Net of Related Debt	8,931,402	11,493,319		5,694	8,931,402	11,499,013
Unrestricted	(97,596)	(132,159)	127,948	129,792	30,352	(2,367)
Total Net Assets	\$ 8,833,806	\$ 11,361,160	\$ 127,948	\$ 135,486	\$ 8,961,754	\$ 11,496,646

- Current assets and cash decreased \$181,991.
- Investment in capital assets, net of related debt increased \$2,561,916 primarily due to debt reduction and fixed assets additions.
- Current and long-term liabilities decreased by \$2,062,782.

Business-type Activities. Franklin County's net assets increased by \$7,538 in fiscal year 2005 due to cash and investments increasing and net purchase of capital assets of \$5,694.

Changes in Net Assets.

Governmental Activities. Franklin County's net assets increased by \$2,527,354 in fiscal year 2005. Key elements of this are as follows:

- Revenues were \$18,223,582 as reflected in the Statement of Activities.
- Expenditures totaled \$15,696,228 as reflected in the Statement of Activities.

Comparative Statement-Change in Net Assets

	Governmental Activities		Percentage
	FY 2004	FY 2005	Change 2004-2005
Revenues			
Program Revenues			
Charges for Services	\$ 2,930,048	\$ 3,450,926	17.78%
Operating Grants and Contributions	5,082,237	5,342,647	5.12%
Capital Grants and Contributions	1,005,757	173,705	-82.73%
General Revenues			
Real Property Taxes	2,472,225	2,689,179	8.78%
Personal Property Taxes	335,135	352,692	5.24%
Motor Vehicle Taxes	476,970	490,065	2.75%
Payroll Tax	2,675,484	2,948,410	10.20%
Occupational License Tax	318,272	289,724	-8.97%
Other Taxes	636,874	717,294	12.63%
Intergovernmental Revenues Not Restricted	580,594	488,988	-15.78%
Unrestricted Investment Earnings	136,689	131,700	-3.65%
Sale of Property		786,509	
Gain on Refunding of Debt		117,583	
Miscellaneous Revenues	392,807	244,160	-37.84%
Total Revenues	17,043,092	18,223,582	6.93%
Expenses			
General Government	5,063,812	5,113,441	0.98%
Protection to Persons and Property	5,620,402	6,304,738	12.18%
General Health and Sanitation	932,891	759,931	-18.54%
Social Services	327,234	337,479	3.13%
Recreation and Culture	378,775	420,016	10.89%
Roads	1,209,246	1,296,860	7.25%
Debt Service	484,147	460,130	-4.96%
Capital Projects	1,403,491	1,003,633	-28.49%
Total Expenses	15,419,998	15,696,228	1.79%
Change in Net Assets	\$ 1,623,094	\$ 2,527,354	

Financial Analysis of the County's Funds

As noted earlier, Franklin County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds Overview. The focus of Franklin County governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the June 30, 2005 fiscal year, the combined ending fund balance of County governmental funds was \$4,835,862. Approximately 85% (\$4,094,617) of this consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds. The remainder of fund balance (\$741,245) is reserved to indicate that it is not available for new spending because it is committed.

The County has five major governmental funds. These are 1) General Fund; 2) Road and Bridge Fund; 3) Jail Fund; 4) Local Government Economic Assistance Fund; and 5) Community Development Block Grant Fund.

1. The General Fund is the chief operating fund of Franklin County. At the end of the June 30, 2005 fiscal year, unreserved fund balance of the General Fund was \$3,777,782, while total fund balance was \$4,040,369. The County received \$4,270,116 in Occupational tax revenues. This accounts for approximately 32% of the general fund revenue. \$3,801,075 was received from real and personal property taxes and accounts for approximately 28% of the County's general fund revenues. Intergovernmental revenues which include grants (\$2,114,902) accounts for 16% of revenues. Various other taxes and service fees make up the remaining 24% of revenues.
2. The Road and Bridge Fund is the fund related to county road and bridge construction and maintenance. In addition, the Franklin County School District contracts with the Road Fund to construct major projects. Revenues cover 100% of these expenditures. The Road and Bridge Fund had \$83,587 in fund balance at June 30, 2005. The fund balance at the end of the previous year was \$2,104. The road fund expenditures for the year were \$1.55 million.
3. The Jail Fund is used to account for the operation of the County's detention program. The Jail Fund had a fund balance at June 30, 2005 of \$124, all unreserved. That is a decrease in fund balance of \$3,754 over the previous fiscal year end. The Jail Fund received \$2,141,181 for services, primarily for housing prisoners. An administrative booking fee resulted in \$94,722 of income. The General Fund contributed \$735,000 to the jail operations. The deficiency is primarily due to cuts in state payments.
4. The Local Government Economic Assistance Fund had a fund balance of \$233,224, an increase of \$452 over the previous fiscal year end. Revenue sources are from coal impact receipts and mineral production.
5. The Community Development Block Grant Fund is used to account for restricted federal monies received, supplemented with County General Funds for developing sewers in the Choateville community and the YMCA childcare facility. The County received \$62,500 in grant funds. The fund balance represents the net available from County revenue since federal receipts are 100% expended within five days.

Proprietary Funds Overview. The County's proprietary fund statements provide the same type of information found in the business-type activities column of the government-wide statements, but in more detail.

Franklin County has one enterprise fund, the Jail Canteen Fund. The Jail Canteen Fund had net assets of \$135,486, a cash and investment balance of \$129,792, and equipment balance of \$5,694 as of June 30, 2005.

General Fund Budgetary Highlights

The County's original revenue budget was amended during the fiscal year increasing the operating budget by \$1,513,816. Budget amendments were made to all areas due mainly to a Homeland Security Grant received and some miscellaneous revenues.

Actual operating revenues were \$769,138 more than amount originally budgeted by the Fiscal Court. This increase was primarily from sale of property.

Actual operating expenditures were \$1,387,583 more than the amount originally budgeted by the Fiscal Court. This increase was primarily due to the payoff of the debt on the Webster building.

Amendments increase the overall budget, however transfers revise line item appropriations up or down with no net change to the fund.

Capital Assets and Debt Administration

Capital Assets. Franklin County's investment in capital assets for its government and business type activities as of June 30, 2005 amounts to \$13,947,938 (net of accumulated depreciation). This investment in capital assets includes land, buildings and

improvements, furniture and office equipment, vehicles and infrastructure. GASB 34 allows the government to report part of the infrastructure assets at transition. The government has not included their entire infrastructure assets. The County has three more years to add infrastructure assets acquired between 1980 and 2002.

Major capital asset events during the 2005 fiscal year included the purchase of 1 vehicle for the Sheriff's department, Hazmat and Homeland Security equipment, improvements to bridges and roads due to flooding, installation of HVAC system in the courthouse, exhaust systems in 6 fire stations, rock drill excavator, and other road equipment.

Additional information on the County's capital assets can be found in Note 3 of this report.

Table 2
Franklin County's Capital Assets
Net of Accumulated Depreciation

	2004	2005
Infrastructure Assets	\$ 1,577,300	\$ 2,202,422
Land	2,216,080	2,216,080
Buildings and Improvements	7,546,687	7,502,566
Furniture and Office Equipment	919,363	1,162,570
Vehicles	1,034,407	864,300
Total Net Capital Assets	<u>\$ 13,293,837</u>	<u>\$ 13,947,938</u>

Long-Term Debt. At the end of the 2005 fiscal year, Franklin County had total long-term bond and lease debt outstanding of \$6,998,926. The amount of this debt due within the next year is \$552,561 and \$6,446,365 is due in subsequent years. This debt is for the detention center, construction and renovation of buildings, fire truck and equipment, and a judgment for settlement of a lawsuit. This debt is described in Notes 4 and 5 of the notes to the financial statements.

Other matters. The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2006 fiscal year budget:

- Leadership changes in the offices of County Judge, County Attorney and Jailer will certainly have a major impact on fiscal policies as well as organizational structure. Debt reduction continues to be a priority demonstrated by the commitment of \$1,000,000 to a debt service reserve fund. Realignment of job duties will result in administrative personnel savings. Appointments were made from existing staff to replace the retiring County Attorney and Jailer.
- Aging facilities at the jail place a heavy burden on repairs and maintenance costs. Major recent improvements include replacing the locking/security system (\$160,000), HVAC work (\$40,000), and installation of a new roof (\$135,000).
- Retirement and health insurance costs continue to skyrocket. Over \$2,000,000 or 10% of the total 2006 budget is required to fund these benefits. The employer's contribution rates for hazardous employees increased by 13% and for nonhazardous employees increased by 29%. The County continues its commitment to providing employees with a single health insurance policy, however incorporation of consumer-driven elements is a necessity to maintain benefit affordability.

Requests for Information

This financial report is designed to provide a general overview of Franklin County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this or requests for additional financial information should be addressed to the Franklin County Treasurer, 313 West Main Street, Frankfort, Kentucky 40601.



County Judge/Executive

FRANKLIN COUNTY FISCAL COURT
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 2,669,856	\$ 60,151	\$ 2,730,007
Investments	<u>2,184,756</u>	<u>69,641</u>	<u>2,254,397</u>
Total Current Assets	4,854,612	129,792	4,984,404
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land	2,216,080		2,216,080
Buildings and Improvements	7,502,566		7,502,566
Furniture and Office Equipment	1,156,876	5,694	1,162,570
Vehicles	864,300		864,300
Infrastructure Assets - Net of Depreciation	<u>2,202,422</u>		<u>2,202,422</u>
Total Noncurrent Assets	<u>13,942,244</u>	<u>5,694</u>	<u>13,947,938</u>
TOTAL ASSETS	<u>18,796,856</u>	<u>135,486</u>	<u>18,932,342</u>
LIABILITIES			
Current Liabilities:			
Electric and Park Deposits	18,750		18,750
Accrued Compensated Absences	418,020		418,020
Bond and Lease Payments Due Within One Year	<u>552,561</u>		<u>552,561</u>
Total Current Liabilities	989,331		989,331
Noncurrent Liabilities:			
Bond and Lease Payments Due in More Than One Year	<u>6,446,365</u>		<u>6,446,365</u>
Total Noncurrent Liabilities	<u>6,446,365</u>		<u>6,446,365</u>
TOTAL LIABILITIES	<u>7,435,696</u>		<u>7,435,696</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	11,493,319	5,694	11,499,013
Unrestricted	<u>(132,159)</u>	<u>129,792</u>	<u>(2,367)</u>
Total Net Assets	<u>\$ 11,361,160</u>	<u>\$ 135,486</u>	<u>\$ 11,496,646</u>

The accompanying notes are an integral part of these financial statements.

FRANKLIN COUNTY FISCAL COURT
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2005

Reporting Entity	Program Revenues Received				Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Totals
					Governmental Activities	Business-Type Activities	
General Government	\$ 5,113,441	\$ 143,524	\$ 2,382,422	\$	\$ (2,587,495)	\$	\$ (2,587,495)
Protection to Persons and Property	6,304,738	2,984,716	925,730		(2,394,292)		(2,394,292)
General Health and Sanitation	759,931	146,552	183,669		(429,710)		(429,710)
Social Services	337,479				(337,479)		(337,479)
Recreation and Culture	420,016	114,750			(305,266)		(305,266)
Roads	1,296,860		1,850,826	111,205	665,171		665,171
Interest on Long Term Debt	460,130	61,384			(398,746)		(398,746)
Capital Projects	1,003,633			62,500	(941,133)		(941,133)
Total Governmental Activities	<u>15,696,228</u>	<u>3,450,926</u>	<u>5,342,647</u>	<u>173,705</u>	<u>(6,728,950)</u>		<u>(6,728,950)</u>
Business-Type Activities:							
Jail Canteen	<u>449,495</u>	<u>456,414</u>				<u>6,919</u>	<u>6,919</u>
Total Primary Government	<u>\$ 16,145,723</u>	<u>\$ 3,907,340</u>	<u>\$ 5,342,647</u>	<u>\$ 173,705</u>	<u>(6,728,950)</u>	<u>6,919</u>	<u>(6,722,031)</u>
General Revenues							
Taxes:							
Real Property Taxes					2,689,179		2,689,179
Personal Property Taxes					352,692		352,692
Motor Vehicle Taxes					490,065		490,065
Payroll Tax					2,948,410		2,948,410
Occupational License Tax					289,724		289,724
Other Taxes					717,294		717,294
Intergovernmental Revenues Not Restricted					488,988		488,988
Unrestricted Investment Earnings					131,700	619	132,319
Gain on Sale of Capital Assets					786,509		786,509
Gain on Refunding of Debt					117,583		117,583
Miscellaneous Revenues					244,160		244,160
Total General Revenues					<u>9,256,304</u>	<u>619</u>	<u>9,256,923</u>
Changes in Net Assets					2,527,354	7,538	2,534,892
Net Assets - Beginning					<u>8,833,806</u>	<u>127,948</u>	<u>8,961,754</u>
Net Assets - Ending					<u>\$ 11,361,160</u>	<u>\$ 135,486</u>	<u>\$ 11,496,646</u>

The accompanying notes are an integral part of these financial statements.

FRANKLIN COUNTY FISCAL COURT
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
JUNE 30, 2005

	General Fund	Road and Bridge Fund	Jail Fund	Local Government Economic Assistance Fund	Community Development Block Grant Fund	Total Governmental Funds
ASSETS						
Current Assets						
Cash and Cash Equivalents	\$ 1,874,363	\$ 83,587	\$ 124	\$ 233,224	\$ 478,558	\$ 2,669,856
Investments	2,184,756					2,184,756
Total Current Assets	<u>4,059,119</u>	<u>83,587</u>	<u>124</u>	<u>233,224</u>	<u>478,558</u>	<u>4,854,612</u>
TOTAL ASSETS	<u>\$ 4,059,119</u>	<u>\$ 83,587</u>	<u>\$ 124</u>	<u>\$ 233,224</u>	<u>\$ 478,558</u>	<u>\$ 4,854,612</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Electric and Park Deposits	\$ 18,750	\$	\$	\$	\$	\$ 18,750
Total Liabilities	<u>18,750</u>					<u>18,750</u>
FUND BALANCES						
Reserved for Encumbrances						
Encumbrances	262,587					262,587
Grant Expenditures		100			478,558	478,658
Unreserved						
General Fund	3,777,782					3,777,782
Special Revenue Funds		83,487	124	233,224		316,835
Total Fund Balances	<u>4,040,369</u>	<u>83,587</u>	<u>124</u>	<u>233,224</u>	<u>478,558</u>	<u>4,835,862</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 4,059,119</u>	<u>\$ 83,587</u>	<u>\$ 124</u>	<u>\$ 233,224</u>	<u>\$ 478,558</u>	<u>\$ 4,854,612</u>
Reconciliation of Governmental Total Fund Balances to Net Assets of Governmental Activities						
Total Fund Balances						\$ 4,835,862
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:						
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds						25,140,969
Accumulated Depreciation						(11,198,725)
Long-term debt is not due and payable in the current period and therefore is not reported in the funds.						
Accrued Vacation Compensation						(418,020)
Bond and Lease Payments Due Within One Year						(552,561)
Bond and Lease Payments Due Within More Than One Year						<u>(6,446,365)</u>
Net Assets of Governmental Activities						<u>\$ 11,361,160</u>

The accompanying notes are an integral part of these financial statements.

FRANKLIN COUNTY FISCAL COURT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2005

	General Fund	Road and Bridge Fund	Jail Fund	Local Government Economic Assistance Fund	Community Development Block Grant Fund	Total Governmental Fund
REVENUES						
Taxes	\$ 8,408,914	\$	\$	\$	\$	\$ 8,408,914
Licenses and Permits	154,964					154,964
Intergovernmental	2,114,902	1,560,194	2,141,181	143,113	246,170	6,205,560
Charges for Services	227,329		132,823		33,973	394,125
Miscellaneous	2,377,264	71,992	115,247			2,564,503
Interest	131,700					131,700
TOTAL REVENUES	13,415,073	1,632,186	2,389,251	143,113	280,143	17,859,766
EXPENDITURES						
General Government	3,007,041					3,007,041
Protection to Persons and Property	3,318,963		2,464,583			5,783,546
General Health and Sanitation	753,565				884,860	1,638,425
Social Services	336,660					336,660
Recreation and Culture	397,654					397,654
Roads		1,429,596		142,661		1,572,257
Debt Service	2,472,996		150,642			2,623,638
Capital Projects	108,773				10,000	118,773
Administration	2,048,282	121,107	512,780			2,682,169
TOTAL EXPENDITURES	12,443,934	1,550,703	3,128,005	142,661	894,860	18,160,163
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	971,139	81,483	(738,754)	452	(614,717)	(300,397)
Other Financing Sources (Uses)						
Transfers to Other Funds	(1,266,916)					(1,266,916)
Transfers from Other Funds			735,000		531,916	1,266,916
Proceeds of Refunding Bonds	(1,018,821)					(1,018,821)
Payment to Refunded Bonds Escrows Agent	1,136,404					1,136,404
Total Other Financing Sources (Uses)	(1,149,333)		735,000		531,916	117,583
Net Change in Fund Balance	(178,194)	81,483	(3,754)	452	(82,801)	(182,814)
Fund Balances - Beginning	4,218,563	2,104	3,878	232,772	561,359	5,018,676
Fund Balances - Ending	\$ 4,040,369	\$ 83,587	\$ 124	\$ 233,224	\$ 478,558	\$ 4,835,862

The accompanying notes are an integral part of these financial statements.

FRANKLIN COUNTY FISCAL COURT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2005

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ (182,814)
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Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	1,396,171
Depreciation Expense	(703,364)
Capital Assets disposed Of, Net Book Value	(44,401)

Lease and bond principal payments are expensed in the Governmental Funds as a use of current financial resources. These transactions, however, have no effect on net assets.

Debt Principal Payments	1,216,192
Refinanced Revenue Bonds	(1,018,821)
Lease Principal Payments	1,716,138
Bond Payments	250,000

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Increase in Compensated Absences	<u>(101,747)</u>
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Change in Net Assets of Governmental Activities	<u>\$ 2,527,354</u>
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The accompanying notes are an integral part of these financial statements.

FRANKLIN COUNTY FISCAL COURT
STATEMENT OF NET ASSETS
PROPRIETARY FUND - MODIFIED CASH BASIS
JUNE 30, 2005

	Business-Type Activities Enterprise Fund
	<u>Jail Canteen Fund</u>
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 60,151
Investments	<u>69,641</u>
Total Current Assets	<u>129,792</u>
Noncurrent Assets	
Capital Assets	
Equipment	7,118
Less: Accumulated Depreciation	<u>(1,424)</u>
Total Noncurrent Assets	<u>5,694</u>
TOTAL ASSETS	<u>135,486</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	5,694
Unrestricted	<u>129,792</u>
TOTAL NET ASSETS	<u>\$ 135,486</u>

The accompanying notes are an integral part of these financial statements.

FRANKLIN COUNTY FISCAL COURT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND - MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2005

	Business-Type Activities Enterprise Fund
	Jail Canteen Fund
OPERATING REVENUES	
Canteen Receipts	\$ 163,171
Total Operating Revenues	163,171
OPERATING EXPENSES	
Cost of Sales	99,754
Personnel Costs	4,286
Depreciation Expense	1,424
Miscellaneous Expense	58,898
Total Operating Expenses	164,362
Operating Income (Loss)	(1,191)
NONOPERATING REVENUES (EXPENSES)	
Inmate Deposits	184,177
Interest Income	619
Inmate Refunds	(189,155)
Inmate Pay from State	13,088
Medical Co-Payments from Inmates	4,469
Medical Co-Payments Paid	(4,469)
Property Damage from Inmates	248
Property Damage Paid	(248)
Administrative Booking Fee from Inmates	91,262
Administrative Booking Fee Paid Fiscal Court	(91,262)
Total Nonoperating Revenues (Expenses)	8,729
Change in Net Assets	7,538
Total Net Assets - Beginning	127,948
Total Net Assets - Ending	\$ 135,486

The accompanying notes are an integral part of these financial statements.

FRANKLIN COUNTY FISCAL COURT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND - MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2005

	Business-Type activities Enterprise Fund
	Jail Canteen Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Canteen Sales	\$ 163,171
Cost of Sales	(99,754)
Personnel Costs	(4,286)
Miscellaneous	(58,898)
Net Cash Provided by Operating Activities	233
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Inmate Pay from State	13,088
Inmate Refunds on Accounts	(189,155)
Inmate Deposits	184,177
Net Cash Provided by Noncapital Financing Activities	8,110
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of Equipment	(7,118)
Net Cash Used in Capital and Related Financing Activities	(7,118)
CASH FLOWS FROM INVESTING ACTIVITIES	
Reinvestment of Interest	(619)
Interest Earned	619
Net Cash Provided by Investing Activities	0
Net Increase in Cash and Cash Equivalents	1,225
Cash and Cash Equivalents - July 1, 2004	58,926
Cash and Cash Equivalents - June 30, 2005	\$ 60,151

The accompanying notes are an integral part of these financial statements.

FRANKLIN COUNTY FISCAL COURT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND - MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2005

Reconciliation of Operating Income to Net Cash Provided (Used)	
By Operating Activities	
Operating Income (Loss)	\$ (1,191)
Adjustments to Reconcile Operating Income to Net Cash Provided	
(Used) by Operating Activities	
Depreciation Expense	<u>1,424</u>
Net Cash Provided by Operating Activities	<u>\$ 233</u>

The accompanying notes are an integral part of these financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Accrued compensated absences are recognized on the Statement of Net Assets, but are not included and recognized on Balance Sheet – Governmental Funds. Property tax receivables, other accounts receivable, and accounts payable are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet – Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. REPORTING ENTITY

The financial statements of Franklin County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon this criteria management has included Franklin County's Jail Canteen as part of the reporting entity.

C. FRANKLIN COUNTY ELECTED OFFICIALS NOT PART OF FRANKLIN COUNTY, KENTUCKY

Kentucky law provides for election of the officials below from the geographic area constituting Franklin County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Franklin County, Kentucky

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

D. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt – consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets – resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets – those assets that do not meet the definition of restricted net assets or invested in capital assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

D. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) operating or capital grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the fund financial statements. All of the Fiscal Court's funds have been designated as major.

Governmental Funds

The government reports the following major governmental funds:

General Fund – This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road and Bridge Fund – This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund – The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, other counties for housing prisoners and transfers from the General Fund. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund – These funds may be spent for public safety, environmental protection, public transportation, health, recreation, libraries, social services, industrial and economic development, workforce training, and secondary wood industry development. In no event shall these funds be used for expenses relating to the administration of government. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Community Development Block Grant Fund – The primary objective of this program is the development of viable urban communities by providing decent housing, a suitable living environment, and expanding economic opportunities, principally for persons of low and moderate income. The Fiscal Court is required to maintain these receipts and expenditures separately from the General Fund.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services and administrative expenses. The County has elected not to adopt FASB Statements or Interpretations issued after November 30, 1989 unless the GASB specifically adopts such FASB Statements or Interpretations.

The government reports the following major proprietary fund:

Jail Canteen Fund – The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

E. DEPOSITS AND INVESTMENTS

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. CAPITAL ASSETS

Capital Assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed. Donated capital assets are valued at their estimated fair market value on the date of donation.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land is not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

<u>Type of Capital Asset</u>	<u>Capitalization Threshold</u>	<u>Useful Life (Years)</u>
Land Improvements	\$ 25,000	20
Land	\$ 1	
Building Improvements	\$ 50,000	10-40
Machinery and Equipment	\$ 5,000	3-10
Vehicles	\$ 5,000	5
Infrastructure	\$ 100,000	25-50
Intangibles	\$ 5,000	3-40

GASB 34 allows the government to report part of the infrastructure assets at transition. The government has not included their entire infrastructure assets. The county will add its infrastructure assets acquired between 1980 and 2002 in the fiscal year ended June 30, 2006.

G. SHORT-TERM AND LONG-TERM OBLIGATIONS

In the government-wide financial statements, short-term obligations include the current portion of bond, debt and lease principal payments, and accrued vacation compensation. Long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bond, debt and capital leases are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

H. FUND EQUITY

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities, however encumbrances are reflected on the Balance sheet – Governmental Funds as part of the Fund Balance.

I. BUDGETARY INFORMATION

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State and Local Finance Officer. Formal budgets are not adopted for the Jail Canteen Fund. The State Local Finance Officer does not require the Jail Canteen Fund to be budgeted because the fiscal court does not approve the expenses made from these funds.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without the approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. DEPOSITS

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution's failure, the County's deposits may not be returned to it. The County does not have a formal deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2005, \$19,005 of the County's deposits were uninsured and unsecured. In addition, during the year deposits of \$207,189 were uninsured and unsecured.

B. INVESTMENTS

As of June 30, 2005, the County had the following investments:

<u>Investments</u>	<u>Maturity</u>	<u>Fair Value (Cost)</u>
Certificates of Deposit	Greater than 90 days	\$ <u>2,254,397</u>

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. INVESTMENTS (CONTINUED)

Interest Rate Risk

The County does not have a formal investment policy that limits its investment maturities as a means of managing its exposure to losses arising from changes in interest rates. In general, certificates of deposit are not subject to interest rate risk.

Credit Risk

KRS 66.480 limits the County's investments in the following: Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, obligations and contracts for future delivery or purchase of obligations backed by the United States or its agencies and obligations of any corporation of the United States Government. Certificates of Deposit issued by or other interest-bearing accounts of any bank or savings and loan institution insured by the Federal Deposit Insurance Corporation or similar entity. Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one of the three highest categories by a nationally recognized rating agency. Bankers acceptances for banks rate in one of the three highest categories by a nationally recognized rating agency. Commercial paper rated in the highest category by a nationally recognized rating agency. Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities. Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States and rated in one of the three highest categories by a nationally recognized rating agency. Shares of mutual funds meeting specific characteristics outlined in the statute shall be eligible investments. Also, the County is limited to investing no more than 20% in any one of the preceding investments as allowed by KRS 66.480. The County had no investment policy that would further limit its investment choices. In general, certificates of deposit are not subject to investment credit risk.

Custodial Credit Risk-Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments held in the possession of an outside party. The County does not have an investment policy for custodial credit risk. In general, certificates of deposit are not subject to investment credit risk.

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

NOTE 3 – CAPITAL ASSETS (CONTINUED)

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 2,216,080	\$	\$	\$ 2,216,080
Total Capital Assets Not Being Depreciated	2,216,080			2,216,080
Capital Assets Being Depreciated:				
Buildings and Improvements	16,877,046	276,326	253,726	16,899,646
Furniture and Office Equipment	1,293,185	376,016		1,669,201
Vehicles	1,923,050	48,873		1,971,923
Infrastructure	1,689,163	694,956		2,384,119
Total Capital Assets Being Depreciated	21,782,444	1,396,171	253,726	22,924,889
Less Accumulated Depreciation for:				
Buildings and Improvements	9,330,359	276,046	209,325	9,397,080
Furniture and Office Equipment	373,822	138,503		512,325
Vehicles	888,643	218,980		1,107,623
Infrastructure	111,862	69,835		181,697
Total Accumulated Depreciation	10,704,686	703,364	209,325	11,198,725
Total Capital Assets Being Depreciated - Net	11,077,758	692,807	44,401	11,726,164
Governmental Activities Capital Assets - Net	<u>\$ 13,293,838</u>	<u>\$ 692,807</u>	<u>\$ 44,401</u>	<u>\$ 13,942,244</u>
<u>Business-Type Activities</u>				
Capital Assets Being Depreciated				
Equipment		\$ 7,118		\$ 7,118
Less: Accumulated Depreciation for Equipment		1,424		1,424
Business-Type Activities Capital Assets - Net		<u>\$ 5,694</u>		<u>\$ 5,694</u>
Depreciation was charged to the government as follows:				
<u>Governmental Activities:</u>				
General Government				\$ 106,755
Protection to Persons and Property				436,156
General Health and Sanitation				4,035
Recreation and Culture				23,054
Roads, Including Depreciation of General Infrastructure Assets				133,364
Total Depreciation Expense - Governmental Activities				<u>\$ 703,364</u>
<u>Business-Type Activities</u>				
Jail Canteen				\$ 1,424
Total Depreciation Expense - Business Type Activities				<u>\$ 1,424</u>

NOTE 4 – CAPITAL LEASES

A. In 1991, the Franklin County Fiscal Court entered into a financing arrangement with the Franklin County Industrial Development Authority (FCIDA) to assist a new company, Webster Heating and Specialty Products, in securing financing. The FCIDA issued general obligation bonds in the amount of \$3.2 million and the bond issue was guaranteed by the Fiscal Court. Webster Heating and Specialty Products (Webster) was to make approximately \$30,000 in bond and interest payments. However, Webster defaulted on the bond payments and the Franklin County Fiscal Court became obligated, as guarantor of the bonds, to pay off the bonds plus interest and penalties, if any. The Fiscal Court voted on June 1, 2001 to execute a promissory note with Bank One to pay off the general obligation bonds. The note was executed on July 3, 2001 for \$2,145,000 and the bonds were paid off that same day. The Fiscal Court refinanced the promissory note with a capital lease through the Kentucky Association of Counties Leasing Trust (KACoLT) program on May 1, 2002 in the amount of \$2,100,000 at 4.00 percent for six years. On September 30, 2004, the building was sold and the lease was paid off.

B. The Franklin County Fiscal Court entered into a lease agreement with the Republic Bank & Trust Company for renovations made to the Franklin County Courthouse. The amount of the lease was \$1,200,000 at 5.27% for twelve years with payments to be made semiannually. The maturity date is December 1, 2008. The balance due at June 30, 2005 was \$455,000. Future debt service requirements follow:

Fiscal Year Ended	Scheduled Interest	Scheduled Principal
2006	\$ 21,980	\$ 105,000
2007	16,225	110,000
2008	10,038	115,000
2009	3,437	125,000
Total	<u>\$ 51,680</u>	<u>\$ 455,000</u>

C. The Franklin County Fiscal Court entered into a lease agreement with KACoLT to establish a family court in the former State Journal Building. The amount of the lease was \$1,110,000 at 5.0%. The closing date was October 7, 1999. The maturity date is November 20, 2009. The balance due at June 30, 2005 was \$584,933. Future debt service requirements follow:

Fiscal Year Ended	Scheduled Interest	Scheduled Principal
2006	\$ 26,222	\$ 121,491
2007	20,070	127,643
2008	13,607	134,107
2009	7,570	201,692
Total	<u>\$ 67,469</u>	<u>\$ 584,933</u>

D. The Franklin County Fiscal Court entered into a Lease/Purchase Agreement with Emergency One, Inc. for a fire truck and equipment. The amount of the lease was \$520,993 at 4.95% for ten years with payments to be made annually. The maturity date is July 3, 2012. Two years of payments were made in the fiscal year ended June 30, 2005. The balance due at June 30, 2005 was \$390,172. Future debt service requirements follow:

Fiscal Year Ended	Scheduled Interest	Scheduled Principal
2007	\$ 19,313	\$ 47,994
2008	16,938	50,369
2009	14,445	52,862
2010	11,828	55,479
2011	9,082	58,226
2012-2013	9,373	125,242
Total	<u>\$ 80,979</u>	<u>\$ 390,172</u>

NOTE 5 – LONG –TERM DEBT

A. General Obligation Bonds – On September 29, 1997, a lawsuit was filed by Franklin County jail employees against Franklin County Fiscal Court claiming sexual harassment, retaliation, constructive discharge, and a violation of the Kentucky Whistleblowers Act. A jury verdict was reached for \$5,000,000. The Fiscal Court executed a promissory note with Bank One on January 8, 2001 for \$5,058,785 representing the settlement amount and interest through the first quarter ending April 9, 2001; the maturity date was July 9, 2001. The Fiscal Court voted on June 1, 2001 to modify the promissory note with Bank One, extending the maturity date to January 9, 2002. The Franklin County Fiscal Court issued general obligations bonds on January 9, 2002 in the principal amount of \$5,300,000 at 4.96% for five years. The balance due at June 30, 2005 was \$4,550,000. Future debt service requirements follow:

Fiscal Year Ended	Scheduled Interest	Scheduled Principal
2006	\$ 179,625	\$ 250,000
2007	105,061	4,300,000
Total	<u>\$ 284,686</u>	<u>\$ 4,550,000</u>

B. Refunding Bonds – Participation Agreement – The Kentucky Local Correctional Facilities Construction Authority (KLCFCA), an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issues revenue bonds for the purpose of construction and reconstruction of jail facilities. The Authority issued \$6,681,057 of revenue bonds at various interest rates of which the county has agreed to pay \$2,032,019 principal and a proportional share of interest on the issue. In October, 2004, the KLCFCA refunded these revenue bonds. As a result, the County entered into a Second Amendment to Lease and Participation Agreement as of October 1, 2004 with the Authority in order to provide for the reduction of the County's rental payments due under the lease with respect to the project consequent to the issuance of the refunding bonds.

Revenue bonds outstanding at June 30, 2005 are \$1,018,821. Future debt service requirements follow:

Fiscal Year Ended	Scheduled Interest	Scheduled Principal
2006	\$ 62,182	\$ 76,070
2007	57,206	80,893
2008	51,915	86,022
2009	46,288	91,476
2010	40,305	97,275
2011-2015	97,622	587,085
Total	<u>\$ 355,518</u>	<u>\$ 1,018,821</u>

C. Changes in Long-Term Liabilities – Long-term liability activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities</u>					
Capital Leases (Note 4)	\$ 3,146,243	\$	\$ 1,716,138	\$ 1,430,105	\$ 226,491
General Obligation Bonds	4,800,000		250,000	4,550,000	250,000
Revenue Bonds	1,216,192	1,018,821	1,216,192	1,018,821	76,070
Total Long-Term Liabilities	<u>\$ 9,162,435</u>	<u>\$ 1,018,821</u>	<u>\$ 3,182,330</u>	<u>\$ 6,998,926</u>	<u>\$ 552,561</u>

NOTE 6 – NOTE ON OTHER DEBTS

A. On October 3, 2003, the Fiscal court was authorized to borrow an amount not to exceed \$70,000 for the purchase of a 5-ton overhead crane for RJ Industries who delivered an irrevocable letter of credit for the entire loan amount. The County makes the payments, but they are reimbursed by RJ Industries. The \$69,000 loan proceeds of the loan were received by the County, but were then paid to RJ Industries.

B. On August 27, 2003, the County entered into a lease agreement with KACO Leasing Trust through Capital Community Economic/Industrial Development Authority (CCEIDA) for the development of an industrial park. CCEIDA makes the payments to KACO Leasing Trust. Because of the cooperative interlocal agreement between CCEIDA, the City of Frankfort, and Franklin County, the City and the County are each required to reimburse CCEIDA for 50% of the payments. The project is under the authority of CCEIDA, therefore, no asset or liability was shown on the County's financial statements. CCEIDA received the proceeds.

C. On August 27, 2003, the County entered into a lease agreement with KACO Leasing Trust through CCEIDA for the purchase of some land to construct a building for Bluegrass Community Action Agency (BGCAA). CCEIDA received the proceeds. BGCAA makes all payments on the lease. Therefore, no asset or liability was shown on the County's financial statements.

NOTE 7 – EMPLOYEE RETIREMENT SYSTEM

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing multiple-employer defined benefit pension plan which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5% of their salary to the plan. The County's contribution rate for nonhazardous employees was 8.48%. Hazardous covered employees are required to contribute 8% of their salary to the plan. The County's contribution rate for hazardous employees was 22.08%.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

NOTE 8 – DEFERRED COMPENSATION

The Franklin County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort Kentucky 40601-8862, or by telephone at (502) 573-7925.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

As of December 7, 2005, the County was informed that they were in violation of KRS 337.285, where employer failed to pay overtime for work performed over 40 hours per week to jail employees. As a result of this violation, the County owes \$55,195.75 to present and former employees. In addition, there will be payments of retirement and employer taxes that are still due. These figures are unknown at this time. The County may be assessed penalties. This amount has not been determined. The violations took place over the period September 25, 2000 to September 18, 2005.

BUDGETARY COMPARISON SCHEDULES – MAJOR FUNDS

FRANKLIN COUNTY FISCAL COURT
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS - MODIFIED CASH BASIS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 8,203,500	\$ 8,203,500	\$ 8,408,914	\$ 205,414
Licenses and Permits	149,500	149,500	154,964	5,464
Intergovernmental	2,137,035	2,907,940	2,114,902	(793,038)
Charges for Services	398,560	348,560	227,329	(121,231)
Miscellaneous	1,637,340	2,430,251	2,377,264	(52,987)
Interest	120,000	120,000	131,700	11,700
TOTAL REVENUES	12,645,935	14,159,751	13,415,073	(744,678)
EXPENDITURES				
General Government	3,126,797	3,168,526	3,007,041	161,485
Protection to Persons and Property	3,111,159	4,029,064	3,318,963	710,101
General Health and Sanitation	706,232	759,932	753,565	6,367
Social Services	348,645	348,645	336,660	11,985
Recreation and Culture	342,010	426,620	397,654	28,966
Debt Service	1,221,115	2,479,655	2,472,996	6,659
Capital Projects	115,000	115,000	108,773	6,227
Administration	1,967,810	1,982,911	2,048,282	(65,371)
TOTAL EXPENDITURES	10,938,768	13,310,353	12,443,934	866,419
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	1,707,167	849,398	971,139	121,741
Other Financing Sources (Uses)				
Transfers To Other Funds	(2,494,561)	(2,444,561)	(1,266,916)	1,177,645
Transfers Within Funds		(2,566,851)		2,566,851
Proceeds of Refunding Bonds			(1,018,821)	(1,018,821)
Payment to Refunded Bonds Escrows Agent			1,136,404	1,136,404
Total Other Financing Sources (Uses)	(2,494,561)	(5,011,412)	(1,149,333)	3,862,079
Net Change in Fund Balance	(787,394)	(4,162,014)	(178,194)	3,983,820
Fund Balances - Beginning	787,394	4,162,014	4,218,563	56,549
Fund Balances - Ending	\$	\$	\$ 4,040,369	\$ 4,040,369

FRANKLIN COUNTY FISCAL COURT
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS - MODIFIED CASH BASIS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005

	ROAD AND BRIDGE FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental	\$ 1,134,384	\$ 1,465,384	\$ 1,560,194	\$ 94,810
Miscellaneous	<u>75,000</u>	<u>75,000</u>	<u>71,992</u>	<u>(3,008)</u>
TOTAL REVENUES	1,209,384	1,540,384	1,632,186	91,802
EXPENDITURES				
Roads	1,556,910	1,890,022	1,429,596	460,426
Administration	<u>131,635</u>	<u>131,635</u>	<u>121,107</u>	<u>10,528</u>
TOTAL EXPENDITURES	<u>1,688,545</u>	<u>2,021,657</u>	<u>1,550,703</u>	<u>470,954</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(479,161)	(481,273)	81,483	562,756
Other Financing Sources (Uses)				
Transfers In From Other Funds	<u>479,161</u>	<u>479,161</u>		<u>(479,161)</u>
Total Other Financing Sources (Uses)	<u>479,161</u>	<u>479,161</u>		<u>(479,161)</u>
Net Change in Fund Balance		(2,112)	81,483	83,595
Fund Balances - Beginning		<u>2,112</u>	<u>2,104</u>	<u>(8)</u>
Fund Balances - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 83,587</u>	<u>\$ 83,587</u>

FRANKLIN COUNTY FISCAL COURT
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS - MODIFIED CASH BASIS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 1,572,500	\$ 1,572,500	\$ 2,141,181	\$ 568,681
Charges for Services	132,500	132,500	132,823	323
Miscellaneous	<u>79,000</u>	<u>79,000</u>	<u>115,247</u>	<u>36,247</u>
TOTAL REVENUES	1,784,000	1,784,000	2,389,251	605,251
EXPENDITURES				
Protection to Persons and Property	2,494,736	2,530,926	2,464,583	66,343
Debt Service	155,000	150,700	150,642	58
Administration	<u>567,748</u>	<u>539,748</u>	<u>512,780</u>	<u>26,968</u>
TOTAL EXPENDITURES	<u>3,217,484</u>	<u>3,221,374</u>	<u>3,128,005</u>	<u>93,369</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(1,433,484)	(1,437,374)	(738,754)	698,620
Other Financing Sources (Uses)				
Transfers From Other Funds	<u>1,433,484</u>	<u>1,433,484</u>	<u>735,000</u>	<u>(698,484)</u>
Total Other Financing Sources (Uses)	<u>1,433,484</u>	<u>1,433,484</u>	<u>735,000</u>	<u>(698,484)</u>
Net Change in Fund Balance		(3,890)	(3,754)	136
Fund Balances - Beginning		<u>3,890</u>	<u>3,878</u>	<u>(12)</u>
Fund Balances - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 124</u>	<u>\$ 124</u>

FRANKLIN COUNTY FISCAL COURT
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS - MODIFIED CASH BASIS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND				
Budgeted Amounts		Actual	Variance with	
Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive	
			(Negative)	
REVENUES				
Intergovernmental	\$ 100,000	\$ 100,000	\$ 143,113	\$ 43,113
TOTAL REVENUES	100,000	100,000	143,113	43,113
EXPENDITURES				
Roads	100,000	332,772	142,661	190,111
TOTAL EXPENDITURES	100,000	332,772	142,661	190,111
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)		(232,772)	452	233,224
Other Financing Sources (Uses) Total Other Financing Sources (Uses)				
Net Change in Fund Balance		(232,772)	452	233,224
Fund Balances - Beginning		232,772	232,772	
Fund Balances - Ending	\$	\$	\$ 233,224	\$ 233,224

FRANKLIN COUNTY FISCAL COURT
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS - MODIFIED CASH BASIS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005

COMMUNITY DEVELOPMENT BLOCK GRANT FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 55,000	\$ 555,000	\$ 246,170	\$ (308,830)
Charges for Services		64,100	33,973	(30,127)
TOTAL REVENUES	55,000	619,100	280,143	(338,957)
EXPENDITURES				
General Health and Sanitation	1,455,316	1,519,416	884,860	634,556
Capital Projects		500,000	10,000	490,000
TOTAL EXPENDITURES	1,455,316	2,019,416	894,860	1,124,556
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(1,400,316)	(1,400,316)	(614,717)	785,599
Other Financing Sources (Uses)				
Transfers In From Other Funds	581,916	581,916	531,916	(50,000)
Total Other Financing Sources (Uses)	581,916	581,916	531,916	(50,000)
Net Change in Fund Balance	(818,400)	(818,400)	(82,801)	735,599
Fund Balances - Beginning	818,400	818,400	561,359	(257,041)
Fund Balances - Ending	\$	\$	\$ 478,558	\$ 478,558

BUDGETARY BASIS OF ACCOUNTING

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State and Local Finance Officer. Formal budgets are not adopted for the Jail Canteen Fund. The State Local Finance Officer does not require the Jail Canteen Fund to be budgeted because the fiscal court does not approve the expenses made from these funds.

The County Judge/Executive is required to submit estimated receipts and proposed expenditure to the fiscal court by May 1 of each year. The budget is prepared by fund, function and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without the approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Charles T. Mitchell Company, LLP

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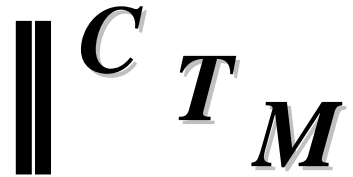
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To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Robert Roach, Former Franklin County Judge/Executive
Members of the Franklin County Fiscal Court

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of Franklin County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 16, 2005. Franklin County presents its financial statements on the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the Standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Franklin County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Franklin County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development, and is not intended to be, and should not be, used by anyone other than the specified party.

Charles T. Mitchell Co.

December 16, 2005

Charles T. Mitchell Company, LLP

Certified Public Accountants

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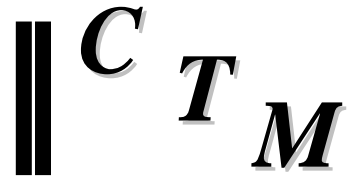
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Report on Compliance With Requirements Applicable To Each Major Program and On Internal Control Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Franklin County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Franklin County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Franklin County's management. Our responsibility is to express an opinion on Franklin County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Franklin County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Franklin County's compliance with those requirements.

As described in Items 1 and 2 in the accompanying schedule of findings and questioned costs, Franklin County did not comply with requirements regarding cash management and equipment and real property management that are applicable to its State Domestic Preparedness Equipment Support Program (CFDA 16.007 and 97.004). Compliance with such requirements is necessary, in our opinion, for Franklin County to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Franklin County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Franklin County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Franklin County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Franklin County's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Item 3.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Charles T. Mitchell Co.

December 16, 2005

FRANKLIN COUNTY FISCAL COURT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2005

Federal Grantor Program Title Grant Name	Federal CFDA No.	Pass Through Grantor's Number	Program or Award Amount	Cash/Accrued or (Deferred) 7/1/2004	Receipts Recognized	Expenditures	Cash/Accrued or (Deferred) 6/30/2005
U.S. Department of Justice							
Passed through Kentucky Military Affairs State Domestic Preparedness Equipment Support Program	16.007	M-02312992-1	\$ 547,563	\$	\$ 2,599	\$ 2,599	\$
		M-03140340	\$ 120,000	(77,651)	97,041	19,390	
		M-03255125	\$ 200,000		166,757	166,757	
		M-03255396	\$ 35,417	(6,848)	30,261	23,413	
		M-03138124-1	\$ 31,073		31,073	31,073	
		M-03254738	\$ 77,306		54,192	53,739	453
				(388)		(388)	
				(84,887)	381,923	296,583	453
Passed-Through Kentucky Justice Cabinet Crime Victims Assistance Program	16.575	8033-VC4-12/03	\$ 50,273	(10,188)	23,747	13,559	
		8134-VC4-13/04	\$ 51,925		24,691	37,250	(12,559)
				(10,188)	48,438	50,809	(12,559)
Narcotics Control Assistance Program	16.579	7031-N4-1/03	\$ 31,534	(6,153)	9,160	3,007	
		7066-N4-2/02	\$ 27,184		3,164	9,349	(6,185)
				(6,153)	12,324	12,356	(6,185)
Local Law Enforcement Block Grant Total U.S. Department of Justice	16.592	2004-LB-BX-1652	\$ 10,500		10,500	10,500	
				(101,228)	453,185	370,248	(18,291)
Federal Emergency Mangement Agency							
Passed through Kentucky Division of Emergency Management Community Emergency Response Teams	83.565	M-033053041	\$ 12,132	9,038		9,038	
		M-03432646	\$ 5,750		5,750	3,482	2,268
				9,038	5,750	12,520	2,268
Citizen Corps Total Federal Emergency Management Agency	83.564	M-03052269	\$ 4,782	(3,053)	4,782	1,729	
				5,985	10,532	14,249	2,268
U.S. Department of Housing and Urban Development							
Passed through Kentucky Department for Local Government Community Development Block Grant/State's Program	14.228	03-043	\$ 250,000		136,657	133,919	2,738
		B-01-042	\$ 1,000,000		52,500	52,500	
		03-077	\$ 500,000		10,000	10,000	
Total U.S. Department of Housing and Urban Development					199,157	196,419	2,738
U.S. Department of Homeland Security							
Assistance to Firefighters Grant	97.044	EMW-2004-FG-02523	\$ 324,000		119,905	119,905	
Passed Through Kentucky Office of Homeland Security State Domestic Preparedness Equipment Support Program	97.004	SHSP-7053	\$ 664,250		112,637	190,485	(77,848)
Passed Through Kentucky Division of Emergency Management Public Assistance Grants	97.036	FEMA-1523-DR-KY	\$ 330,053		330,053	330,053	
		FEMA-1578-DR-KY	\$ 26,006		26,006	26,006	
					356,059	356,059	
Total U.S. Department of Homeland Security					588,601	666,449	(77,848)
TOTAL				\$ (95,243)	\$ 1,251,475	\$ 1,247,365	\$ (91,133)

FRANKLIN COUNTY FISCAL COURT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2005

Note 1

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Franklin County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Note 2

Of the federal expenditures presented in the accompanying Schedule of Expenditures of Federal Awards, Franklin County Fiscal Court provided federal awards to the following subrecipients:

Program	CFDA Number	Subrecipient	Pass-Through Grant Amount
Narcotics Control Assistance Program	16.579	King's Center Thornhill Learning Center	\$ 10,991 1,103
Total Narcotics Control Assistance Program			<u>\$ 12,094</u>
Local Law Enforcement Block Grants Program	16.592	Frankfort/Franklin Co. CASA Safe Place of Franklin Co.	\$ 6,500 4,000
Total Local Law Enforcement Block Grants Program			<u>\$ 10,500</u>

FRANKLIN COUNTY FISCAL COURT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2005

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? _____ Yes X No

Reportable conditions identified not considered to be material weaknesses? _____ Yes X None Reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

Material weaknesses identified? _____ Yes X No

Reportable conditions identified not considered to be material weaknesses? X Yes _____ None Reported

Type of auditor's report issued on compliance for major programs?

97.004	Qualified
16.007	Qualified
97.036	Unqualified

Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section 510(a)?

_____ X Yes _____ No

Identification of major programs:

CFDA #	Name of Federal Program
97.036	Public Assistance Grants
16.007	State Domestic Preparedness Equipment Support Program
97.004	State Domestic Preparedness Equipment Support Program

Dollar threshold used to distinguish between

Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? _____ Yes X No

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING – COMPLIANCE DEFICIENCY

DEPARTMENT OF TRANSPORTATION

1. State Domestic Preparedness Equipment Support Program CFDA # 16.007
Grant Period June 30, 2005

Condition: The County received some of its funds prior to expenditure.

Criteria: According to the Master Agreement with the Commonwealth of Kentucky, all funds are allocated on a reimbursement basis only.

Effect: The County received \$112,175.75 of its \$381,923.42 funds in advance which could cause there to be questioned costs. However, all payments were eventually made in accordance with the invoice approved by the State and provided to the Treasurer for payment. Accordingly, we are not treating this amount as a questioned cost.

Cause: On the Master Agreement it states that in order for reimbursement to be made, the Team is required to provide an invoice to the Kentucky Division of Emergency Management. It says nothing about showing evidence of payment. The Treasurer did not get the invoice to make the payment before the reimbursement was received. Another cause is that these funds are received on a team basis which means the County and the City's Hazmat teams make purchases but the County makes all payments.

Recommendation: Evidence of payment should be provided before reimbursement can be received from the state.

2. State Domestic Preparedness Equipment Support Program CFDA # 16.007, 97.004
Grant Period June 30, 2005

Condition: Some of the Homeland Security and Hazmat equipment purchases may not be covered by insurance and are not included on the County's inventory for control purposes.

Criteria: According to the Master Agreement with the Commonwealth of Kentucky, all equipment purchased under this grant must be managed in accordance with Federal guidelines. This includes insuring these equipment purchases and including them in the County inventory for control purposes.

Effect: The County is not in compliance with the equipment and real properly management requirement.

Cause: Updated inventory listings of Hazmat and Homeland Security Equipment are not submitted to inventory control person for control and insurance purposes.

Recommendation: We recommend that an updated listing of Hazmat and Homeland Security equipment with cost amounts be sent to inventory control person so that they can be added to County inventory and insurance policy as required.

FINDING – REPORTABLE CONDITION

3. State Domestic Preparedness Equipment Support Program CFDA #16.007

Condition: The County is getting reimbursed for expenses that have not been paid prior to receipt. In addition, reimbursements are being received for expenditures that have not been made.

Criteria: According to the Master Agreement with the Commonwealth of Kentucky, all funds are allocated on a reimbursement basis only. A valid invoice should be submitted before reimbursement can be requested.

Effect: The County is receiving reimbursement for unallowable expenditures and allowable expenditures are not getting reimbursed which causes the County not to be in conformance with grant requirements.

Cause: There is a lack of a consistent system of requesting reimbursement for valid hazmat expenditures.

Recommendation: The County needs to develop a consistent system where all valid hazmat expenditures get submitted for reimbursement after payment of the invoice has been made.

DEPARTMENT OF TRANSPORTATION

Finding 1 State Domestic Preparedness Equipment Support Program

Condition: This finding was a compliance deficiency stating that the County received much of its grant reimbursements prior to the expenditure.

Recommendation: Evidence of payment should be provided before reimbursement can be received from the state.

Current status: There were some of the same problems in this year. Changes based on the recommendation were not made until substantially into the year.

DEPARTMENT OF TRANSPORTATION

Finding 2 State Domestic Preparedness Equipment Support Program

Condition: This finding was a reportable condition (see condition 1)

Recommendation: The County Treasurer needs to enact a system with the County and City Hazmat teams to make sure that all invoices get paid before reimbursement is received from the state.


Current status: See status above.

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
FRANKLIN COUNTY FISCAL COURT
FOR THE YEAR ENDED JUNE 30, 2005

The Franklin County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



County Judge/Executive



County Treasurer